1. (2 points) As a matter of fact, population in Japan grows at a lower rate than that in the U.S. Does this imply that money demand in the U.S. grows faster than that in Japan? Explain your reason.

2. (2 points) Discuss the impact of a permanent reduction in money supply on exchange rate. Will that result in exchange rate overshooting? Explain using a diagram. Show also the time path of price level and exchange rate.

3. (2 points) In the previous question, we assumed that real output was given. Assume instead that a reduction in the money supply reduces real output in the short run. How does this effect the extent to which the exchange rate overshoots? Describe using a diagram.

4. (2 points) Assume that one percent increase in money supply increases price immediately by 0.25 percent. How will this assumption change your answer in Question 2 and 3. Describe using a diagram.

5. (2 points) Is it true that a central bank can reduce the extent to which the exchange rate overshoots by announcing its policy in advance? Explain your reason using a diagram.